

**Statement of Phil Carroll, President
National Affordable Housing Management Association
Subcommittee on Housing and Community Opportunity
House Committee on Financial Services
May 3, 2001**

Madam Chair, Congressman Frank and members of the Subcommittee, the National Affordable Housing Management Association (NAHMA) appreciates this opportunity to present its views on affordable housing issues. NAHMA is a national association representing owners and professional managers of government-assisted housing developments.

Virtually everyone agrees that we face a crisis of affordable housing, nationally and in every region of the country. We are all aware of HUD's annual reports that have shown a steady rise in worst case housing needs. Other studies indicate that many other low-income, working families are finding it increasingly difficult to obtain affordable housing. In short, affordable housing is not just a problem of the very poor. Finding solutions to this problem should be a national priority.

Affordable housing problems vary from community to community. In suburbs ringing most major cities, housing markets are tight and getting tighter. In many rural communities as well, affordable housing simply does not exist and isn't being built. In other communities, the problem is not with the supply, but with the ability to pay for housing. This problem does not offer itself to one-size-fits-all solutions. What works in one community may not work in another.

NAHMA believes that attacking the roots of the affordable housing problem requires a Toolbox with tools that permit a variety of different approaches, and the flexibility to use those approaches effectively. NAHMA recommends these five essential tools:

- Preservation
- Project-based Assistance
- Tenant-based Rental Assistance
- Tax Credits and Bonds
- Production of New Affordable Housing

These tools can be used effectively and in combination by both for-profit and nonprofit entities to provide the right mix of affordable housing. I want to give NAHMA's perspective on these tools, and also mention a number of legislative and HUD regulatory issues that bear directly on the Federal government's ability to be a positive force for affordable housing.

First – Preservation. There is already a supply of more than a million units of privately owned housing that was created to be affordable to low-income families. Eighty-seven percent of it is good quality housing, and we cannot afford to lose it. Congress has taken steps to discourage owners from prepaying their mortgages or opting out of the low-income housing program. These incentives to keep existing housing affordable should be continued and, if

feasible, expanded, and tenants should be given protections in the event of opt-outs. There are significant regulatory disincentives to staying in affordable housing programs that need to be addressed. And it goes without saying that the Federal government's commitment to renewing all expiring section 8 contracts must continue.

Second – Tenant-based assistance. In many communities, affordability is a bigger problem than availability. Tenant-based vouchers have a high success rate in many communities. But in others vouchers are a ticket to a frustrating and unsuccessful housing search for many residents. As you know, HUD recent issued a rule increasing the payment standard in tighter rental markets. This tool applies, however, to fewer than 40 markets nationwide, and many more markets have problems fully as significant as those communities that are currently empowered to raise payment standards. Vouchers have an important place in the affordable housing toolbox. We are pleased that the Administration recognizes that there is a problem with voucher utilization and intends to address it.

The base of this problem is the Fair Market Rent; it is neither fair nor market. So long as we cling to the fiction that the fair market rents are reasonable the voucher program will have difficulty succeeding in any tight or rising market. The problem of poor voucher utilization is particularly acute where owners have opted out of the section 8 program. In many markets, vouchers cannot be utilized given current FMRs, and in such cases families are at risk of being displaced. We suggest replacing the current FMRs with a system that truly reflects the market, both in rents and in timing.

Third – Low Income Housing Tax Credit. The tax credit has been a useful tool for creating up to 100,000 units of affordable housing each year, although it is not as deeply targeted as some other Federal programs. We believe Congress took an important step last year in raising the allocation cap on the tax credit from \$1.25 to \$1.75 per capita and making other useful changes in the program. The corresponding increase in the private activity volume cap is also very important to the development of affordable housing. NAHMA would support H.R. 951, introduced by Rep. Houghton, and S. 677, introduced by Sen. Hatch, which would make it easier to use the tax credit in rural markets.

Nonetheless, we would caution that the increase in the tax credit cap alone will not solve the affordable housing problems. In some states, like Colorado for example, the demand for tax credits exceeds supply by 10 to one, and the credit is not necessarily efficient in all markets.

Fourth – Project-based assistance. We already house 1.3 million low- and generally very low-income families in project-based units, nearly as many as receive vouchers, and those families live in good housing. We believe it would be impractical and unwise to expose all of those households to the marketplace as contracts expire. We already have a mark-to-market program that both reduces rental subsidies and preserves housing as affordable. Despite its flaws, we think mark-to-market should be extended beyond its October 2001 sunset date. We

understand that the Administration intends to propose an extension of mark-to-market restructuring authority beyond this year.

The Fiscal Year 2001 HUD appropriations bill increased to 20 percent the percentage of a PHA's section 8 units that can be project-based. We believe this was a wise decision, because it allows PHAs to respond more effectively to market conditions. We encourage Congress to consider increasing project-basing beyond 20 percent.

A key to the success of project-basing is keeping owners in the program. As I indicated earlier, I believe that Congress in particular has been responsive to the need to prevent owners from opting out of the program. Nonetheless, I will mention several issues that are still of major concern to private owners of assisted housing developments.

First, there should be a standard for the timely payment of both landlords and residents. NAHMA members are commonly owed money in the six and seven figure ranges. Contract renewals are a nightmare; some take as much as six months. Congress has provided adequate funding for all renewals. The problems appear to lie, rather, with HUD and the Office of Management and Budget. Getting funding from appropriations to a site typically takes four to six months, during which time owners end up financing the Federal government.

Second, high utility costs have become a serious burden for project owners. In the absence of a HUD policy that would have permitted most owners to reflect these dramatically higher costs in their rent structures, owners paid for these dramatically higher costs – sometimes \$20 to \$30 per unit each month – from project reserves. After several months of internal discussion, which began in the last administration, HUD issued a utility cost policy for assisted housing only two weeks ago. We know that the new Administration moved as quickly as possible on this issue. But by the time many assisted housing owners apply for and receive relief, half a year will have elapsed since the problem began. The utility cost problem is not going to be of short duration, and we encourage the development of policies that will address this problem – which is serious both for private owners and PHAs – over the longer term.

Third, we are very concerned by the budget proposal to terminate funding for the public and assisted housing drug elimination program. While a great deal of attention has been focused on the impact of this budget cut on public housing agencies, the impact will be equally severe for the assisted housing industry. Approximately \$45 million was available to private owners last year – through a set-aside in the core drug elimination grant program and \$20 million in “New Approach” drug grants. These competitively awarded funds enabled many owners around the country to respond effectively to drug abuse problems in their developments. While PHAs are, at least, getting an increase in their operating subsidies to compensate for the termination of the drug elimination program, private owners have no recourse whatsoever.

Fourth, while Congress has made it easier for PHAs to evict for drug-related offenses while maintaining reasonable due process safeguards, private landlords participating in the

section 8 program still have only a limited ability to evict in a timely fashion tenants who threaten the health and safety of other residents. We urge Congress to consider ways in which this situation can be remedied, so we can ensure that the precious housing benefit goes to people willing to live by the rules.

Fifth – Production. No broad-based strategy for addressing the affordable housing shortage would be complete without consideration of production programs. A new production program can and should be a tool for buying down the cost of housing in hard-to-develop areas or where there is an inadequate supply of housing for poor families.

In our view, resources for production should be targeted at families with income below 30 percent of area median. We believe we should avoid concentration of the poor by locating these new production units – which may or may not be tied to project-based rental assistance – in conventional, mixed-income and mixed-finance developments. We would oppose tying production exclusively to projects developed with the tax credit, simply because the tax credit does not work uniformly well in all areas. We also believe that a new housing production program should ensure a level playing field and permit access to capital for both for-profit and nonprofit entities with the capacity to develop and maintain affordable housing over the long term. Earlier discussions which only contemplated grants effectively shut out for-profit operators. Without them you will simply not have enough capacity to ensure these initiatives work. There is a proven track record of both for-profit and nonprofit providers doing excellent, innovative assisted housing development.

We support creating a production program that is as close to market-based as possible. Recent history is replete with examples of failed production programs that have been dependent on deep Federal subsidies for both operations and maintenance.

Let me also state for the record that we would also encourage Congress to look at ways in which existing programs – HOME, FHA multifamily and Rural Housing Service programs – can be improved to better meet the need for affordable housing development.

We understand that there are numerous complex issues that should be carefully and thoughtfully considered in the development of a new production program and ways to make it workable over the long term. We hope that these discussions can begin early in this Congress.

HUD Secretary Martinez said at his Senate confirmation hearing that HUD's management problems must be solved if the Department is to operate more efficiently and serve its constituencies effectively. We heartily agree, and we urge this Committee and the Congress to work closely with Secretary Martinez as he attempts to deal with HUD's management deficiencies. I mention three that directly affect our members' participation in HUD programs.

The Department has generally done a poor job of matching its personnel with its programmatic needs. HUD must consider the distribution and training of its staff and devote its resources realistically to places where they are needed most. The quality and quantity of staff varies widely from office to office, and the corps of well-trained middle management at HUD has been depleted and must be strengthened.

In addition, HUD has historically ignored the need to upgrade and improve its management and information systems. From NAHMA's perspective, this manifests itself in problems with tracking and processing payments to landlords and late payment on assisted housing contracts.

Finally, continual, and in some cases ill-conceived, "reinvention" of the Department has created turmoil within HUD, confused people who do business with the agency, and discouraged many entities from continuing to do business with the Department. HUD's programs and staffing must be stabilized, and new mandates for the Department should be viewed in the context of HUD's capacity to carry them out.

As private owners and managers of affordable housing, we have worked closely with HUD's Office of Housing, state housing agencies and local agencies around the country. We believe each agency – and each of HUD's private sector partners – has their own individual strengths and weaknesses that should be considered as we move to address the crisis in affordable housing, either through new initiatives or improvements in existing programs. For example, we believe that NAHMA's affordable housing professionals are well-suited to the management of public housing, which would free public housing agencies devote more time to entrepreneurial activities and policies to enhance development of their own affordable housing programs.

Madam Chair we believe that with the five tools:

- Preservation
- Project-Based Assistance
- Tenant-Based Assistance
- Tax Credits and Bonds
- Production of New Affordable Housing

in the hands of nonprofit and for-profit entities and relevant Federal state and local agencies, we can achieve the right mix of affordable housing and ease the housing burdens of so many of our citizens. We look forward to working with this Subcommittee as we move together toward this objective.